



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ November 18, 2013 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an examination report on the City of Morning Sun, Iowa for the period July 1, 2012 through June 30, 2013. The examination was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible. The City should also review tax increment financing (TIF) debt certifications and debt service activity with TIF and bond legal counsel to determine whether current and past TIF collections and debt service levies have been appropriate and make any corrections determined to be necessary.

A copy of the examination report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1321-0560-BL0F.pdf>.

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CITY OF MORNING SUN
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Examination Report	4-5
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 7
Debt Service Levy	B 7
Annual Urban Renewal Report (AURR)	C 7-8
Fund Balance Adjustments	D 8
Management Financial Information	E 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	F 9
Monthly Bank Reconciliations	G 9
Financial Condition	H 9
Local Option Sales Tax (LOST)	I 9
Tax Increment Financing (TIF) Fund Disbursements	J 10
Business Transactions	K 10
Questionable Disbursements	L 10
Certified Budget	M 11
City Council Minutes Publication	N 11
Payment of General Obligation Bonds/Notes	O 11
Payroll	P 11
Disbursements	Q 11
Petty Cash	R 11
Staff	12

City of Morning Sun

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Minnis	Mayor	Jan 2014
Bill Spearman	Mayor Pro-Team	Jan 2014
Jerry Malone	Council Member	Jan 2014
Barb Pealer	Council Member	Jan 2014
Brian Belzer	Council Member	Jan 2016
Roger Hobbs	Council Member	Jan 2016
Angie Malone	Clerk	Indefinite
Brenda Springsteen	Asst. City Clerk/Utility Clerk	Indefinite
Fran McElhinney	Treasurer	Indefinite



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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of the City Council:

We have performed an examination of the City of Morning Sun pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Morning Sun for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2012 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.


10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.


Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Morning Sun, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Morning Sun, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Morning Sun and other parties to whom the City of Morning Sun may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Morning Sun during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 8, 2013

Detailed Recommendations

City of Morning Sun

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling and recording.
- (2) Receipts – opening mail, collecting, depositing, journalizing and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing and recording.
- (4) Payroll – recordkeeping, preparation and distribution.
- (5) Utilities – billing, collecting, depositing and posting.
- (6) Financial reporting – preparing and reconciling.
- (7) Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Debt Service Levy – The City levied debt service tax for its Series 2000 general obligation bonds and its Series 2008 general obligation note, but also certified and received tax increment financing (TIF) receipts for the bonds and note. During the year ended June 30, 2013, principal and interest on the bonds and note were paid from the Debt Service Fund.

In addition, the City's water revenue bond resolution requires principal and interest on the bonds be paid solely from water net receipts. While principal and interest were correctly paid from the Enterprise, Water Fund, the City also levied debt service tax for the bond payments.

Recommendation – The City should consult TIF and bond legal counsel to determine the disposition of these matters, including reviewing current and past Debt Service Fund activity to determine whether a future reduction in the debt service tax levy is appropriate and to determine whether corrective transfers should be made to reimburse the Debt Service Fund from the Special Revenue, Tax Increment Financing (TIF) and the Enterprise, Water Funds.

- (C) Annual Urban Renewal Report (AURR) – The AURR report was not approved and certified to the Iowa Department of Management on or before December 1. The report was approved on December 12, 2012 and certified on December 13, 2012.

In addition, the following reporting exceptions on the Levy Authority Summary were noted:

The City understated the amount reported as TIF debt outstanding by \$32,599.

City of Morning Sun

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

Activity of the Special Revenue, Tax Increment Financing (TIF) Fund, including beginning and ending cash balances, receipts and disbursements, does not agree with the City's general ledger.

The City overstated the amount reported as year-end outstanding TIF obligations, net of the TIF Fund cash balance, by \$124,464. The amount reported was \$107,316 and should have been a deficit of \$17,148, an indication the City has collected more TIF receipts than needed for outstanding TIF obligations.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records. The City should decertify and return any TIF receipts collected in excess of TIF obligations to the County Treasurer.

- (D) Fund Balance Adjustments – The Annual Financial Report for the fiscal year ended June 30, 2012 reported balances by fund which varied from the final balances reported in the fiscal year 2012 audit report, as follows:

Fund	Audit Report	Annual Financial Report	Variance
General	\$ (96,047)	(4,150)	91,897
Special Revenue:			
Road Use Tax	(5,499)	-	5,499
Tax Increment Financing	161,978	-	(161,978)
Library Grants	16,239	-	(16,239)
Debt Service	(10,178)	-	10,178
Enterprise:			
Water	7,184	100,595	93,411
Sewer	148,491	129,058	(19,433)
Gas	333,438	367,753	34,315
Sanitation	(9,712)	-	9,712
Equipment Reserve	47,141	-	(47,141)
Other	221	-	(221)
Total	\$ 593,256	593,256	-

According to City personnel, balances were adjusted to eliminate negative balances and to reflect the fund balances reported in the new software system at July 1, 2012. The City could not provide support for the adjustments, including \$161,978 transferred from the Special Revenue, Tax Increment Financing Fund, a fund restricted for the payment of loans, advances, indebtedness or bonds which qualify for payment from tax increment financing receipts.

Recommendation – The City should determine and document the propriety of adjustments made to fund balances. The City should consult TIF legal counsel to determine the propriety of the \$161,978 transferred from the Special Revenue, Tax Increment Financing Fund.

City of Morning Sun

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (E) Management Financial Information – The Clerk’s financial reports to the City Council included cash and investment balances and year-to-date receipts and disbursements, but did not include comparisons to the certified budget by function or a summary of beginning balance, receipts, disbursements, transfers and ending balance by fund.

Recommendation – To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the Clerk’s monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly reports should also include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (F) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and delinquent account listings were not maintained.

Recommendation – Utility customer delinquent account listings should be maintained and procedures should be established to reconcile utility billings, collections, and delinquent accounts for each billing period. The City Council should review the reconciliations and monitor delinquent accounts.

- (G) Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not compared to the City’s general ledger fund balances. Disbursements in the reconciliations were adjusted to force the reconciliation to balance with the bank statement balance. Variances (adjustments) are not investigated and resolved.

Recommendation – To provide better control over financial transactions and overall accountability, the reconciliations should be compared with the City’s general ledger fund and account balances. Variances should be investigated and resolved monthly.

- (H) Financial Condition – At June 30, 2013, the City had deficit balances of \$66,529, \$14,248 and \$6,759 in the General Fund and the Special Revenue, Road Use Tax and Employee Benefits Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (I) Local Option Sales Tax (LOST) – The LOST ballot requires 50% of LOST collections be allocated for the payment of principal and interest on bonds, as long as such principal and/or interest remains unpaid, issued for the construction of a new county jail in Louisa County. The City may use the remaining funds for any other lawful purpose. For the year ended June 30, 2013, \$42,794 of LOST was collected and credited to the Special Revenue, Local Option Sales Tax Fund. However, payments totaling \$18,955 for the City’s share of the Louisa County jail bonds were made from the General Fund.

Recommendation – The City should make a corrective transfer to the General Fund for current (\$18,955) and past payments, if any, made from the General Fund to the County for the City’s share of the jail bonds. Future payments on the jail bonds should be made from the Special Revenue, Local Option Sales Tax (LOST) Fund as required.

City of Morning Sun

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (J) Tax Increment Financing Fund Disbursements – Chapters 403.19(10)(b) and 403.22 of the Code of Iowa provide moneys in the Special Revenue, Tax Increment Financing (TIF) Fund shall not be used for any purpose except for the payment of loans, advances, indebtedness or bonds which qualify for payment from the TIF Fund or to provide allowable LMI assistance.

During the year ended June 30, 2013, the City paid \$402 of claims from the TIF Fund. These costs do not represent TIF obligations and, accordingly, are not an allowable use of tax increment financing receipts.

Recommendation – The City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for these costs. If disbursements are for a qualified TIF project, the City may approve an advance (interfund loan) from the General Fund to the TIF Fund and certify the advance to the County Auditor as a TIF obligation for future collection of TIF receipts and reimbursement to the General Fund to repay the advance.

- (K) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Brenda Springsteen, Utility Clerk, Spouse is owner of Spingsteen Tiling	Water line and fire hydrant installation	\$14,850

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (L) Questionable Disbursements – During the year, \$33 was disbursed for candy for employees and visitors to City Hall. This disbursement may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefit to be derived has not been clearly documented.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

City of Morning Sun

Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (M) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public works and community and economic development functions prior to the budget amendment. At June 30, 2013, disbursements exceeded the amounts budgeted in the public safety, community and economic development and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (N) City Council Minutes Publication – Chapter 372.13(6) of the Code of Iowa requires the publication of City Council minutes include “a list of all claims allowed and a summary of all receipts.”

The City’s publication of claims does not include Automatic Clearing House (ACH) claims and a summary of receipts is not published as required.

Recommendation – The City should publish all claims, including ACH claims, and a summary of all receipts, as required.

- (O) Payment of General Obligation Bonds/Notes – Although principal and interest on general obligation bonds/notes were properly paid from the Debt Service Fund, the payments were recorded incorrectly in the general ledger. Principal recorded was understated and interest recorded was overstated by \$6,754.

Recommendation – Principal and interest on general obligation bonds/notes should be properly recorded.

- (P) Payroll – Time cards are not always approved and initialed by the employee’s supervisor.

Recommendation – Time cards should be approved and initialed by the employee’s supervisor or by an independent official who is not involved with payroll.

- (Q) Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

- (R) Petty Cash – The City’s petty cash funds were not included in the City’s accounting records and resulting fund balances.

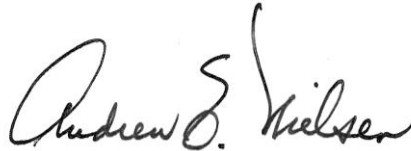
Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including petty cash, should be included in the Clerk’s accounting system.

City of Morning Sun

Staff

This examination was performed by:

Marlys K. Gaston, CPA, Manager
Jamie T. Reuter, Staff Auditor
Melissa E. Janssen, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State